COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE ELZIE NEELEY GAS COMPANY, INC.	))	CASE NO. 90-076

O R D E R

On March 30, 1990, Elzie Neeley Gas Company, Inc. ("Elzie Neeley") filed an application requesting authority to increase its gas rates by $41,249 annually or 75 percent. Based upon the determination herein, operating revenue will increase by $630 an increase of approximately 1 percent.

A settlement agreement was entered October 1, 1990 by Commission Staff and Elzie Neeley on most of the issues relating to expense adjustments, but did not resolve all of the issues.

A hearing was held on October 2 and 3, 1990. There are no intervenors.

Elzie Neeley is a wholly owned subsidiary of the Mike Little Gas Company, Inc. ("Mike Little"). Elzie Neeley is a public utility providing gas service to approximately 74 residential customers in Floyd County, Kentucky. The owners and operators of Elzie Neeley also own and operate the Phelps Gas Company, Inc. ("Phelps"). Various operating expenses are shared by these companies and other businesses also under common ownership.

Therefore, these utilities are considered to be affiliated companies.

Test Period

Elzie Neeley proposed and the Commission accepted the 12 month period ending December 31, 1989 as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable adjustments found reasonable.

Valuation

Reproduction Cost vs. Net Original Cost

Elzie Neeley proposed a net reproduction cost rate base of $102,066. Staff proposed that the investment in utility assets be based on net original cost and determined that the test-year-end rate base was $18,839. Elzie Neeley's net reproduction cost valuation was based on an independent appraisal and represents an asset valuation which is 542 percent above the net original cost rate base. The company stated that it was requesting this valuation methodology because of the essential nature of the pipeline system and the need for increased revenues. KRS 278.290 (1) states in part:

> In fixing the value of any property under this subsection, the Commission shall give due consideration to the history and development of the utility and its property, original cost, cost of reproduction as a going concern, capital structure, and other elements of value recognized by the law of the land for rate-making purposes.

The Commission has given due consideration to these and other elements in valuing Elzie Neeley's property for the purpose of determining the fair, just, and reasonable rates and has determined that the net original cost value should be used.

The Commission believes the net original cost valuation reflects the actual investment which has been made by the owners in the utility's assets. The reproduction cost appraisal inflates the rate base to reflect the cost of the system as if all of the assets were immediately replaced at today's costs. There is no indication that this system will need to be entirely replaced in the near future. More likely, the assets of this utility will be replaced over time and it will be allowed to recover its investment in those assets through depreciation. The reproduction cost valuation results in a valuation that has no economic substance but is rather a "paper" write-up of Elzie Neeley's assets. To allow Elzie Neeley to earn a return on the reproduction cost rate base would provide for a return on investment which has not been made and could result in rates that are excessive in relation to the actual investment made by the owners of the utility. Furthermore, the net original cost has been used consistently for both large and small gas utilities regulated by this Commission, and is widely accepted by a majority of the regulatory commissions in the country.

Based on the findings herein, the Commission has determined the net original cost rate base to be $18,401. The Commission derived this amount by using net original cost and revising it to reflect adjustments included in the settlement agreement and the provisions for working capital based on the allowable operating expenses.

Capitalization

The Commission has determined that as of the end of the test period, Elzie Neeley's total capitalization was $11,278. This total consisted of $11,310 in long-term debt which was an interest-free advance from its parent company, Mike Little; a $5,300 note payable bearing interest at 10 percent; and, negative retained earnings of $5,332.

Revenue and Expenses

Proposed Settlement

The Commission has reviewed the proposed settlement entered into by Elzie Neeley and Staff resolving 16 of the issues presented in this proceeding. The proposed settlement is attached hereto, marked Appendix A. The Commission finds that the settlement reflects a reasonable compromise of the positions of the parties. The proposed settlement is supported by the evidence of record. The proposed settlement is in accordance with the law. The Commission will, therefore, accept the settlement for rate-making purposes herein. The provisions and terms of the proposed settlement are adopted herein as the findings of the Commission. The remaining revenue and expense issues are discussed in the following sections.

Adjustments to Customer Base and Usage

Elzie Neeley proposed to reduce its test year number of customers and customer usage in calculating its normalized revenues and gas purchases. Although Elzie Neeley showed declines in its number of customers during 1988 and 1989, it also showed an increase during 1986-1987. This does not indicate a clear cut trend.

Elzie Neeley proposed to adjust customer usage and purchases based on an average of the last 4 years, adjusted downward, for a 2 percent margin of error. To the contrary, this resulted in an increase above the purchases shown for 1989. In response to Question 13 of the Commission's Order dated May 29, 1990,[1] Elzie Neeley stated that its supplier had encountered operational problems with its meters in 1989, resulting in estimated bills to Elzie Neeley.

It is normal for a utility to experience fluctuations in customer usage and the number of customers served. By its own admission Elzie Neeley states that "each year is different."[2] Furthermore, in response to Question 9 of the Commission's Order dated May 29, 1990, Elzie Neeley was unable to explain its loss in customer base or usage.[3] When asked at the October 3, 1990[4] hearing, Elzie Neeley was still unable to explain why it experienced customer and usage declines. Based upon the foregoing, the Commission finds that the adjustments for customer usage and the number of customers should be denied.

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1 Case No. 90-076, An Adjustment of Rates of the Elzie Neeley Gas Company, Inc., page 25.

2 Brief in support of the Application of Elzie Neeley Gas Company, Inc., page 35.

3 Id., page 23.

4 Transcript of Evidence, Case No. 90-077, Adjustment of Rates of the Mike Little Gas Company, Inc., page 145.

Revenues from Sales

The Commission accepts Elzie Neeley's normalized sales revenues of $54,959 which reflects test-year actual Mcf sales. Adjusting for the most recent purchased gas adjustment, effective September 1, 1990,[5] results in normalized sales revenues of $51,350.

Late Payment Penalties and Service Charges

In its application, Elzie Neeley proposed an adjustment to increase its revenues from late-payment penalties and service charges from $901 to $1,174 based on an average of the last 3 years of late-payment penalties and service charges. Staff recommended denying the request because Staff discovered that errors had been made on the adjusted books of Elzie Neeley. Staff recommended using actual amounts from Elzie Neeley's monthly recap. Elzie Neeley amended its request twice; first, in its comments to the Staff Report, then again at the hearing. These errors appear to be the result of lack of proper internal control procedures and Elzie Neeley should establish procedures to reconcile cash deposits to revenues.

Subsequent to the hearing, Elzie Neeley provided a revised monthly recap which showed $1,425 in service charge revenues for the test year. Of this amount, $900 was for customer deposits which should have been recorded as a liability. The remaining $525 was for actual service charge revenues. Apart from the

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5 Case No. 10246-G, The Notice of Purchased Gas Adjustment Filing of Elzie Neeley Gas Company, Inc., Order dated October 3, 1990.

service charge revenues, an additional $811 was shown for revenues from late payment penalties. In addition, Elzie Neeley provided copies of the deposit cards substantiating its revisions.

The Commission finds that the actual level of late payment penalties and service charge revenues of $1,336 as revised by Elzie Neeley is a reasonable adjustment.

Revenue Summary

Revenue	
Gas Sales	$51,350
Late Payment Penalties and Service Charges	1,336
Total Operating Revenues	$52,686

Natural Gas Purchases

During the test period Elzie Neeley reported gas purchases of 8,024 Mcf and gas sales of 8,821 Mcf. Elzie Neeley proposed adjustments to gas purchases based on estimates of a declining customer base and line loss of 7 percent.

The Commission routinely allows actual line loss up to a maximum of five percent. During questioning at the hearing pertaining to line loss, Elzie Neeley stated that it was "willing to live with the 5 percent number and withdraw that from the application."[6]

Given the aforementioned metering problems, the Commission finds that test-year sales volumes are the most reasonable means

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6 T.E., Case No. 90-077, page 139.

of calculating gas purchases. Adjusting for 5 percent line loss, purchases should be as follows:

$$\text{Test-year sales } \frac{8,821}{.95} \text{ Mcf} = 9,285 \text{ Mcf allowable purchases}$$

The purchased gas expense is then computed using the cost of gas from Case No. 10246-G.[7] This adjustment yields a total cost of $30,667, or an increase from test-year purchases of $1,894.

Distribution Expense.

Elzie Neeley reported test-year actual distribution expense of $90. Elzie Neeley proposed an adjustment to increase this expense by $360 for an anticipated increase in contract labor costs. During the hearing it was disclosed that the proposed increase in this account was based on part-time salaries that were actually incurred and included in wages and salaries in the test year, but excluded from the wages and salaries contained in the calculation of Elzie Neeley's pro forma adjustment.

The Commission finds that under the operating circumstances of Elzie Neeley, the use of part-time employees is necessary and will occur on an ongoing basis. Therefore, the Commission has accepted the proposed increase which results in total adjusted distribution expense of $450.

Administrative and General Salaries.

Elzie Neeley reported a test-year expense of $9,000 for the manager's salary and proposed to increase this charge by 5 percent

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7 Case No. 10246-G, The Notice of Purchased Gas Adjustment Filing of Elzie Neeley Gas Company, Inc., Order dated October 3, 1990.

to a total of $9,450. The Staff proposed to reduce the manager's salary to $4,500 based on the fact that for approximately one half of the test year, the company had no full-time manager and has not taken any steps toward hiring a new manager. Since the death of the owner, Mike Little, on June 7, 1989, the operations of Elzie Neeley have been managed by a son-in-law, Mr. Daniel Greer. Mr. Greer has provided management of the affiliated companies of Mike Little while under full-time employment at Ashland Oil Company. The record reflects that no attempt has been made to account for the time required by Mr. Greer to manage these companies; however, the time involved has been considerably less than full-time. The operations of the gas companies appear to have suffered no declines in service as a result of the current, part-time management arrangement.

The Commission finds that a level of $4,500 is reasonable since the company has not demonstrated that a full time manager is being sought or needed. The Commission has determined from reviewing these cases that the former owner/manager was responsible for managing the affairs of two cable television businesses which are also owned by the owners of the affiliated utilities and that this arrangement has continued under new management. The cable companies, which are jointly operated by the owners of the gas utilities, should also pay a reasonable amount toward the manager's salary. The Commission has determined that the total manager's salary for the three affiliated utilities should be $21,000. The Commission urges management to contain this cost to the approved level unless the circumstances as presented change considerably.

Outside Services.

Elzie Neeley proposed to increase Outside Services Expense by $8,762 to reflect a $34 increase in engineering costs, a $945 charge for the appraisals performed by Marshall and Stevens, Inc., and a $7,783 increase in legal and accounting fees which included an average of the past three years legal fees plus $7,500 for rate case expense.

Elzie Neeley and Staff reached settlement on the engineering fees as well as the recurring portion of the legal fees. The remaining expenses discussed herein include the cost of the appraisals performed on and for the utility and a reasonable level of expense to cover the cost of this rate case proceeding.

A. Appraisal Cost

Elzie Neeley proposed to include a $945 increase to recognize an allocation of two appraisals performed by Marshall and Stevens, Inc. The total cost of the appraisals was estimated to be $10,500 and included one appraisal for rate-making purposes and one for estate tax purposes. Elzie Neeley requested to recover the total cost of both of the appraisals from ratepayers, as the company felt both appraisals were useful to the company.

Staff recommended that the Commission disallow the entire expense on the grounds that the company could not split the costs between the appraisal related to the rate case and the appraisal related to the estate tax. During the hearing, Elzie Neeley provided information which showed that $4,500 was for a machinery and equipment appraisal, which was used in arriving at the reproduction cost valuation; and, $5,000 was for an income approach appraisal which was used for the estate tax valuation. The $500 for project management, $500 for office production costs, and $2,600 for travel expenses related to both appraisals.

The Commission finds that it is reasonable to allow only the portion of the cost associated with the appraisal used in presenting the reproduction cost rate base. The second appraisal, which was performed for estate tax purposes, is a cost which should be borne by those individuals who are beneficiaries of the estate, and does not constitute a reasonable cost of providing utility service. Furthermore, the other expenses which relate to both appraisals should be divided on an equal basis between the utility and the estate to provide a sharing of these costs between the ratepayers and the owners. The Commission has reviewed this issue and has determined that the total appraisal cost that should be included for rate-making purposes is $6,300, which includes the cost of $4,500 for the machinery and equipment appraisal, plus one half of the cost of project management, office production and travel.

The Commission has determined that a 3 year amortization of the allowable appraisal cost would best reflect the expected benefit period of the appraisal. This amortization period corresponds to the typical period between utility rate cases and amortizes this expense over the period which receives the benefit. This amortization results in a total annual charge of $2,100 which is then allocated to the three regulated utilities on a percentage of total customer basis. The Commission has accepted the percentage amounts quoted by both Staff and Elzie Neeley which reflects a 10 percent allocation of common cost to Elzie Neeley. This percentage results in a $210 appraisal cost expense to Elzie Neeley annually.

B. Rate Case Expenses

Elzie Neeley originally estimated that the expenses associated with this rate case would be $7,500. Subsequent to the hearing, however, Elzie Neeley filed information disclosing that through October 3, 1990 the company has incurred $13,443 in total rate case expenses related to this case. This breaks down into a total per customer cost of $181. The company requested that it be allowed to recover these costs over a one year period since the company has to pay for these expenses immediately.

Staff recommended that a reasonable amount be allowed once the actual expenses were known. The company agreed to file its actual costs following the hearing. The Commission has reviewed the rate case expenses filed in this proceeding and has concluded that Elzie Neeley has incurred costs in excess of the typical rate case for a company of its size. The Commission does, however, realize that this case addressed some complex issues and, therefore, required more time and expense than the typical rate case.

The Commission has determined that due to the nature and amount of this expense, it would be better to allocate the total rate case expense for all 3 affiliated utilities, $71,736, on a per customer basis. This results in a $94 per customer charge for rate case expense which this Commission feels is unreasonable. To minimize the impact of this cost to the ratepayers, the Commission has amortized rate case expenses over 6 years which is $15.67 per customer annually. This results in a total rate case expense of $1,196 per year for Elzie Neeley.

Miscellaneous General Expenses

Elzie Neeley and Staff reached agreement on all items of expense in this category with the exception of an allowance for contingencies. Elzie Neeley requested an increase in this expense of $842 based on a gas loss that occurred at Phelps in 1989 as a result of a flood. Staff recommended disallowing the proposed contingency since the company provided no evidence supporting such an incident occurring with any measurable frequency.

The Commission finds that the fact that another company experienced a one-time gas loss as a result of a flood is not sufficient basis for including such an allowance in the rates of Elzie Neeley. In establishing the level of expenses used to determine revenue requirements, expenses of an unusual and nonrecurring nature are generally excluded in order to project expenses on a normal, ongoing basis. The Commission further finds that any such contingencies will be covered by the reserves generated from the earnings approved in this case.

Rent

Elzie Neeley proposed to increase the test-year office and shop rent expense of $4,200 by 5 percent or $210 to recognize general inflation. Staff recommended reducing the test-year charge by $3,060. Staff based this reduction on an allocation of a total rental charge, which was based on the level of rental expense allowed in the most recent rate cases involving the three utilities that share the common office space. The Commission hereby affirms its position taken in those cases that since the rental expense is not based on an arms-length transaction it is subject to scrutiny on the reasonableness of the charges. There was no evidence introduced in this case sufficient to support the company's position that rental costs in the area are increasing. Therefore, the Commission finds the reasonable level of rental expense to be $1,140. The Commission remains concerned that Elzie Neeley is actually incurring rental costs in excess of what was allowed in the most recent rate case, considering the fact that management has total control over the level of expense incurred. This situation results in losses to the utility which will not be recovered in future proceedings. Elzie Neeley should therefore strive to contain costs to the levels allowed herein.

Income Tax Expense

Elzie Neeley proposed to include $8,414 in income tax expense to reflect an average tax rate of 34 percent applied to the company's proposed net operating income. The company felt this would approximate the level of expense this company would incur if it were liable for taxes and, since the shareholders were potentially liable for this expense, the costs should be recovered through rates via a rate-making provision for income tax expense. Staff recommended disallowing this proposed expense since the company itself was not liable for any income tax as it has elected the Sub Chapter "S" form of corporation for tax purposes. The

Commission finds that this expense is not a liability of the utility and should not be recovered in rates.

The earnings of the utility are distributed to the owners in much the same way that dividends are paid to the stockholders of a utility. The stockholders are then liable for any income generated by those dividends. The amount of tax liability to the owners of an S Corporation depends on the personal circumstances of those individuals. Furthermore, the amount of tax liability the utility would be subject to if it were a regular "C" corporation is incalculable since tax planning would be a part of the utility's philosophy and might drastically change the company's tax liability.

Based upon the above adjustments, Elzie Neeley's adjusted operating statement is presented as follows:

	Test Period Actual	Pro Forma Adjustments	Test Period Adjusted
Operating Revenue	$55,305	<$2,619>	$52,686
Operating Expenses	52,026	< 1,894>	50,132
Operating Income	3,279	< 725>	2,554
Other Income	0	0	0
Other Deductions	694	< 164>	530
Net Income	$ 2,585	$ 561	$ 2,024

Rate of Return

Elzie Neeley proposed that its revenue requirements be based on a 16 percent return on the reproduction cost rate base. This return would provide net operating income of $24,745 which would reflect a 134 percent return on the net original cost rate base found reasonable herein. The Commission has determined that the use of a reasonable return on the original cost rate base would not provide sufficient revenues to maintain the financial viability of Elzie Neeley.

This Commission has, in the past, approved the use of the operating ratio methodology when equity capital and rate base are not well-matched as is the case with Elzie Neeley. The Commission, therefore, finds that the operating ratio methodology should be used in this situation. Applying this methodology results in a total revenue increase of $630 for Elzie Neeley determined as follows:

Total Operating Expenses	$ 50,132
Less - Gas Purchases	30,667
Subtotal	19,465
Divided by Operating Ratio	.88
Subtotal	22,119
Add - Gas Purchases	30,667
Interest Expense	530
Total Revenue Requirement	53,316
Staff Normalized Gas Service Revenues	52,686
Total Increase in Revenues	$ 630

Revenue Requirements

Based on the above determination, Elzie Neeley will require additional annual revenues of $630 to produce an overall annual revenue requirement of $53,316.

The gross operating revenue of $53,316 is based upon operating revenues and cost of gas normalized to Purchase Gas Adjustment ("PGA") Case No. 10246-G.

Rate Design

Elzie Neeley proposed a $15 monthly service charge per customer to spread revenues more evenly throughout the year. Elzie Neeley did not provide any cost support or cost of service study for determining the $15 charge and failed to respond to Question 8b of the Commission's Order dated May 29, 1990[8] where it was requested to provide such calculations. When asked again at the October 3, 1990 hearing, Mr. Greer stated he had merely calculated a charge of $27.65 during the break by subtracting gas costs from the expenses on the income statement.[9]

The Commission finds that the proposed service charge should be denied. Any future request for changes in rate design should be fully supported by a cost analysis.

Other Issues

Elzie Neeley made a request at the hearing to accept notice of the hearing that was published 6 days prior to the hearing. Commission regulation 807 KAR 5:001, Section 8(5), provides that notice of hearings are given by newspaper publication no more than 21 nor less than 7 days prior to the hearing. At the hearing, counsel for Elzie Neeley introduced affidavits of newspaper publication in the areas served by Elzie Neeley including publication in the Sunday edition of a newspaper of statewide

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8 Case No. 90-076, Ordered entered May 29, 1990, pages 20-22.

9 T.E., Case No. 90-077, pages 151-152.

circulation said publication made 6 days prior to the hearing. After consideration of the request and being otherwise sufficiently advised, the Commission finds that Elzie Neeley has substantially complied with the Commission's notice requirements and the request to accept the notice that was published 6 days prior to the hearing is granted.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Elzie Neeley be and they hereby are denied.

2. The proposed settlement agreement between Staff and Elzie Neeley be and hereby is accepted. The proposed settlement is incorporated herein.

3. Elzie Neeley's motion to accept the publication of its notice of the hearing 6 days prior to the hearing is hereby granted.

4. The rates in Appendix B be and they hereby are fair, just and reasonable rates to be charged by Elzie Neeley for service rendered on and after the date of this Order.

5. Within 30 days from the date of this Order, Elzie Neeley shall file with this Commission its revised tariff sheets setting out the rates approved herein.

6. Within 30 days of the date of this Order, Elzie Neeley shall file the amount of excess revenues collected, along with a refund plan. The refund plan shall include interest at a rate equal to the "3-Month Commercial Paper Rate." These rates are reported in the Federal Reserve Bulletin and the Federal Reserve Statistical Release.

Done at Frankfort, Kentucky, this 7th day of December, 1990.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

ATTEST:

Executive Director

Dissenting Opinion of Commissioner James T. Thornberry

I respectfully dissent. I think it unreasonable to allow a provision for income taxes to "C" corporations but not allow the same provision for Subchapter "S" corporations, sole proprietorships, and partnerships. I do, however, concur with the remainder of this Order.

Jim Thornberry
James T. Thornberry
Commissioner

ATTEST:

Lee M. MacCracken
Executive Director

APPENDIX A

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE ELZIE NEELEY GAS COMPANY, INC.	) CASE NO. 90-076
AN ADJUSTMENT OF RATES OF THE MIKE LITTLE GAS COMPANY, INC.	) CASE NO. 90-077
AN ADJUSTMENT OF RATES OF THE PHELPS GAS COMPANY, INC.	) CASE NO. 90-078

SETTLEMENT AGREEMENT

WHEREAS, Mike Little Gas Company, Inc. ("Mike Little"), Elzie Neeley Gas Company, Inc. ("Elzie Neeley"), and Phelps Gas Company, Inc. ("Phelps") each filed applications with the Public Service Commission ("Commission") on March 30, 1990 seeking approval of proposed increases in rates to produce annual increased revenues of $231,564, $40,976, and $106,052, respectively, and

WHEREAS, on July 31, 1990, Commission Staff issued its report on each of the three utilities setting forth its recommendations regarding the revenue and expense adjustments proposed by each and further setting forth recommendations pertaining to rate design, and

WHEREAS, each utility, by and through counsel, submitted responses to staff recommendations. Said responses being filed into the record on August 15, 1990, and

WHEREAS, Commission Staff and counsel for each of the three utilities met to discuss a potential settlement proposal and have reached agreement on certain issues in these three cases.

NOW, THEREFORE, be it resolved that:

1. All signatories agree to the following levels of expenses are reasonable and acceptable for rate-making purposes in the following expense accounts and in the following amounts:

a. Uncollectible Accounts Expense:

Mike Little	$2,318
Phelps	456
Elzie Neeley	343

b. Supplies and Expenses:

Mike Little	$3,458
Phelps	1,068
Elzie Neeley	351

c. Office Supplies Expenses:

Mike Little	$2,653
Phelps	889
Elzie Neeley	485

d. Outside Services Expenses:

Engineering -

Mike Little	$132
Phelps	48
Elzie Neeley	20

Legal and Accounting Fees -

Mike Little	$8,645
Phelps	4,146
Elzie Neeley	2,006

The above stated outside services expense levels do not include a reasonable amount for rate case expenses to be provided by each of the utilities at the conclusion of the hearing on each case.

e. Injuries and Damages Expense:

Mike Little	$2,396
Phelps	228
Elzie Neeley	746

f. Property Insurance Expense:

Mike Little	$7,496
Phelps	2,010
Elzie Neeley	746

g. Employee Pensions and Benefits:

Mike Little	$3,483
Phelps	932
Elzie Neeley	491

h. General Advertising Expense:

Mike Little	$0
Phelps	0
Elzie Neeley	0

This account does not include advertising for rate increase and public hearing notice related to these cases.

i. Amortization Expense:

Mike Little	$689

There were no amortization expense adjustments for Phelps and Elzie Neeley.

j. Depreciation Expense:

Mike Little	$9,832
Phelps	1,556
Elzie Neeley	1,672

k. Miscellaneous General Expense - No agreement has been reached as to Contingency amounts, however, Dues and Freight are agreed to at the following levels:

Mike Little	$186
Phelps	68
Elzie Neeley	28

l. Taxes Other Than Income Taxes:

Mike Little	$7,363
Phelps	2,148
Elzie Neeley	971

m. Other Interest Expense:

Mike Little	$4,417
Elzie Neeley	530

No agreement was reached on the appropriate expense level for Phelps.

n. Maintenance of General Plant - no adjustments were proposed for Phelps and Elzie Neeley. Parties agree the balance in this account should be $0 for Mike Little.

o. Notice Period Losses on the Purchased Gas Adjustment Clause. Proposal was made to include $10,000 as projected notice period loss for Mike Little and $676 as projected notice period loss for Phelps. The parties agree that $0 should be recorded for these projected losses. No agreement was reached on treatment for the actual test year recorded losses for Mike Little.

p. Fines and Penalties. No proposal has been made for Mike Little or Elzie Neeley. The agreed to amount for Phelps is $0.

q. Customer Accounts Expenses:

Meter reading labor - $8,640 Phelps. No adjustments were proposed for Mike Little or Elzie Neeley;

Accounting and Collecting Labor - $2,640 Phelps. No adjustments were proposed for Mike Little or Elzie Neeley.

r. Transportation Expense:

Mike Little	$4,156
Phelps	2,461
Elzie Neeley	626

s. Distribution Expense:

Mike Little	$2,043
Phelps	110
Elzie Neeley	90

No agreement has been reached as to contract labor costs.

2. All signatories hereto waive all cross-examination of the witnesses of the other parties hereto on the issues specified herein, unless the Commission disapproves this Settlement

Agreement, and further stipulates and recommends that the Applications, Staff Reports, and utilities' responses to Staff Reports filed in the proceedings be admitted into the record.

3. This Settlement Agreement is submitted for purposes of these cases only and is not deemed binding upon the signatories hereto in any other proceedings, nor is it to be offered or relied upon in any other proceeding involving Mike Little, Phelps, Elzie Neeley or any other utility. Nothing in this Settlement Agreement is intended or should be construed to inhibit any signatory from taking any position it deems necessary regarding the propriety or impropriety of utilizing projected revenue and expense data for rate-making purposes in future proceedings before the Commission.

4. If the Commission issues an order adopting this Settlement Agreement in its entirety, each of the signatories hereto agrees that it shall file neither an application for rehearing on the issues specifically addressed herein nor an appeal to the Franklin Circuit Court from such order with respect to the issues addressed herein.

5. If this Settlement Agreement is not adopted in its entirety, each signatory reserves the right to withdraw from it and require that hearings go forward upon all or any matters involved herein, and that in such event the terms of this agreement shall not be deemed binding upon the signatories hereto, nor shall such agreement be admitted into evidence or referred to or relied on in any manner by any signatory hereto, the Commission or its staff in any such hearing.

6. All other issues not specifically addressed herein are reserved for the hearing in these proceedings.

7. It is understood by the signatories that this agreement is not binding upon the Commission.

8. The foregoing agreement is reasonable, in the best interest of all concerned and should be adopted by the Commission in its entirety.

AGREED TO BY:

Brenda Gould

Hon. Brenda Gould, Attorney for
Elzie Neeley Gas Company, Inc.
Mike Little Gas Company, Inc.
Phelps Gas Company

10/2/90

Date

Janet Smith Holbrook

Hon. Janet Smith Holbrook, Attorney
for Elzie Neeley Gas Company, Inc.
Mike Little Gas Company, Inc.
Phelps Gas Company

October 2, 1990

Date

Rebecca Woodside Goodman

Hon. Rebecca Woodside Goodman
Attorney for Commission Staff

October 2, 1990

Date

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-076 DATED 12/07/90

The following rates and charges are prescribed for the customers served by Elzie Neeley. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATES: Monthly

First 1 Mcf - Minimum Bill	$6.8013
All Over 1 Mcf	$5.7687